| FROM: | TO: | ER NO. |
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| NSC | ES/DCI | 82-4968/1 |
| | | DATE |
| | | 10 May 82 |
| | | CLASS. |
| | B-223 | ~~SECRET~~ |

SUB:

Japanese Request for an Exception to the December 30, 1981, Sanctions on Oil and Gas Equipment Exports to the Soviet Union

11 May 82: Orig w/att to ES

11 May 82: Orig w/att to ANIO/USSR - action- suspense 0800 12 May 1982, cy to DDI, SA/DCI/IA, ER Files

1

SUSPENSE DATE : 0800, 12 May

ACTION OFFICE(S) : ANIO/USSR-EE

FIRST REMINDER SENT :

SUSPENSE DATE EXTENDED TO:

SECOND REMINDER SENT :

DATE OFFICE CALLED & CURRENT STATUS :

DATE COMPLETED :

ER: NIO/USSR has no comments. Paper is pro-NSC staff informed on 12 May. Action complete.

B-223

# EXECUTIVE SECRETARIAT
## Routing Slip

TO:

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| 20 | ANIO/USSR-EE | X | | | |
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SUSPENSE 0800 12 May
Date

Remarks:

For preparation of comments per our conversation.

5/12: Informed NSC staff secretary by phone that CIA had no comments.

Executive Secretary
11 May 1982
Date

3637 (10-81) [redacted]

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

Executive Registry
82-4968/1

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May 10, 1982

MEMORANDUM FOR MS. NANCY BEARG DYKE
Assistant to the Vice President
for National Security Affairs

MR. L. PAUL BREMER III
Executive Secretary
Department of State

LIEUTENANT COLONEL ROBERT P. MEEHAN
Assistant for Interagency Matters
Office of the Secretary of Defense

MR. WILLIAM SCHNEIDER
Associate Director for National Security
and International Affairs
Office of Management and Budget

[redacted] 25X1
Executive Secretary
Central Intelligence Agency

MS. JACQUELINE TILLMAN
Executive Assistant to the United States
Representative to the United Nations

COLONEL CHARLES F. STEBBINS
Executive Assistant to the Chairman
of the Joint Chiefs of Staff

SUBJECT: Japanese Request for an Exception to the December 30, 1981, Sanctions on Oil and Gas Equipment Exports to the Soviet Union (C)

The addressal of START by the NSC has been tentatively rescheduled for Friday, May 21, at 1:30 p.m. in the Cabinet Room. The NSC meeting on Thursday, May 13, at 3:15 p.m. in the Cabinet Room will instead address the above. Attached is a draft background paper for the meeting. Please provide comments on this draft paper by 10:00 a.m. Wednesday, May 12. (C)

Michael O. Wheeler

Michael O. Wheeler
Staff Secretary

Attachments

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Review May 10, 1988

SECRET

B223

## Japanese Request to Approve U.S. Export Licenses for the Sakhalin Project

The Japanese consortium (SODECO) established seven years ago to jointly explore and develop the gas (and oil deposits off the Sakhalin continental shelf sent a letter to Don Gregg on 3/30/82 (Tab A) urgently requesting that we approve critical U.S. export licenses for equipment and spare parts valued at approximately $2 million by May 1 in order to facilitate 1982 exploratory work for Sakhalin.

SODECO claims that failure to obtain the U.S. licenses would mean the inability to commence 1982 exploratory efforts on the secondary geological structure ("Odoptu") and result in Soviet abrogation of the 1975 General Agreement governing the project. According to the correspondence, this denial would also reportedly result in the loss of up to $500 million in "front-end" capital investment by the consortium and permit the Soviets to proceed alone with the development of the proven reserves of the primary structure ("Chaivo") for which the exploratory work was completed in October 1981. Moreover, SODECO claims that the Soviets will be able to sell the Chaivo gas and oil to third countries at "full market prices." We calculate potential Soviet hard currency earnings from deliveries of LNG to Japan over the prescribed twenty year period of between $60-80 billion (see percentage ownership of SODECO at Tab B).

25X1

1. A May "deadline" for the release of U.S. licenses is rigid if 1982 exploratory work on Odoptu is to proceed (Tab C -- cable from our Embassy in Tokyo). However, Odoptu is a redundant geological structure, the development of which is not required to meet the delivery schedule of LNG and crude oil envisioned in the 1975 General Agreement. The Japanese reportedly have been attempting to resist Soviet pressure to proceed with Odoptu drilling for at least the past year. The Soviets were pressing for Odoptu exploration to begin in the summer of 1981. When repeatedly asked by the consortium why Odoptu is perceived as necessary when Chaivo has more than sufficient proven reserves to fulfill the terms of the 1975 General Agreement, the Soviets could only respond that they cannot defend separating the structures to their "National Committee." No exploratory work has as yet begun on Odoptu. The Soviets have insisted on the drilling of five wells 25X1

SECRET
Review May 6, 1988
Classified by Norman A. Bailey

at Odoptu in 1982 and six wells in 1983. They threatened to abrogate the agreement if this schedule is not observed. The original Japanese position was reportedly to resist any drilling at Odoptu, however, confronted with the abrogation threat, reluctantly agreed to the drilling of five wells in 1982 but reserved the right to have a new decision taken concerning 1983.

2. [redacted] deferring or even cancelling Odoptu 25X1
exploration would probably not result in the abrogation of the 1975 General Agreement even if it is confirmed that the Soviets have such a right under the terms of the Agreement. One Tokyo-based firm involved in Sakhalin has [redacted] already received 25X1
guidance not to take soil borings at Odoptu because of the probability that U.S. licenses would be withheld.

3. It is regarded as "highly questionable" that the Soviets can undertake the development and production phase of the Chaivo structure beginning in 1983 should the General Agreement be abrogated because of the possible inability to mobilize the financing required of between $2-3 billion to cover development costs. In addition, substitution of the U.S. export items (probably in Germany and France) would result in a costly delay of up to 2 years.

4. No Far Eastern markets other than Japan [redacted] exist 25X1
for Sakhalin gas (100% scheduled to be exported to Japan). Only the very modest crude oil production could be used domestically by the USSR or sold for hard currency.

5. The Soviets, with the possible cooperation of SODECO, are very likely "testing" the U.S. export licensing policy with the hope of stampeding the U.S. into granting an exemption for this project well in advance of the <u>genuine requirement</u> to obtain licenses about 90 days prior to a December 1982 signing of the development and production phase of the Chaivo structure.

6. The Soviets [redacted] placed a full work crew on at 25X1
least one of the two drill rigs at the Odoptu site six months ago, and without the approval of U.S. licenses in early May, this skilled work force would be idle for at least one year. This delay would be caused by climatic conditions which limit the Sakhalin work schedule to between June and October.

7. It is estimated that the abrogation of the General Agreement prior to the Chaivo production phase would probably represent a loss of roughly $170 million to the consortium rather than the $500 million figure provided by SODECO. In addition to the $170 million in the project to date, $15 million has been earmarked for 1982 Odoptu exploratory work.

8. Japan is presently facing an oversupply of LNG. The most authoritative figure on projected LNG demand by 1990 is said to be 38.5 million metric tons (estimate of the Energy Institute of Japan). MITI's estimate of 43.0 million metric tons of LNG is considered somewhat overstated. The tables attached (Tab D) describe: (1) LNG imported in 1981, (2) contracted LNG to be brought on stream, (3) new projects in the advanced planning stages. Despite the oversupply situation illustrated by the tables, the Japanese government has reportedly given priority to Sakhalin because (1) it has a 44% ownership share of SODECO, (2) it has provided the bulk of the $170 million venture capital, (3) the project has been under active discussion and exploration since 1975 and abrogation due to U.S. licensing policy would probably create political difficulties both in the Parliament and with the Japanese business community. (Without minimizing the importance of these considerations, they do not change the fact that Japan does not need Sakhalin LNG or take into account a potential U.S. energy offset package to assist in mitigating the adverse political and bilateral repercussions.)

9. SODECO's claim that they were exempted from export controls in 1980 and 1981 is inaccurate. No embargo existed for oil and gas related equipment in 1980 or 1981. The licenses for Sakhalin during that period were processed according to standard procedures.

Efforts are still underway to corroborate portions of this information, particularly concerning the abrogation question [redacted] 25X1

The issue for decision before the Administration at this juncture is whether or not to permit the interruption of 1982 Odoptu exploratory work and the possible but, at this writing, unlikely abrogation of the 1975 General Agreement. If the information outlined above is deemed sufficiently accurate, it is recommended that we not approve the U.S. export licenses for Sakhalin at this time. There is little doubt that SODECO and the Japanese government will register strong displeasure with this decision, but the major arguments which support this decision are: (1) the reintroduction of curfews and imposition of other restrictions in Poland in response to a new round of potentially serious social unrest and violence, (2) original and perhaps continuing Japanese resistance to exploration of the redundant Odoptu structure, (3) the [redacted] probability that our withholding of export licenses will not result in abrogation of the General Agreement, (4) the relatively modest venture capital committed to date, (5) indications that the Japanese are open to discussions of various quids, (6) to preserve the integrity of our across-the-board withholding of U.S. licenses for oil 25X1 and gas related equipment to the USSR for, at least, a few more valuable months to permit efforts to structure a viable U.S. energy offset package should Soviet behavior call for a decision to permit abrogation in December 1982, (7) the probability that the Soviets and SODECO will respond to this decision by abandoning the more ambitious strategy of circumventing U.S. controls without any harm to the project and begin to concentrate efforts on having the licenses approved prior to the critical December 1982 signing date for the production phase of Chaivo.

Should the Administration decide to continue to maintain controls on all oil and gas related equipment to the USSR through 1982, as mentioned earlier it would probably result in the interruption of the entire Sakhalin joint venture. The downside impact of this decision on U.S.-Japanese relations could potentially be mitigated by structuring an alternative U.S. energy package designed to offset Sakhalin deliveries and provide compelling inducements for the Japanese to permit abrogation.

Although not an expert on these matters, a U.S. energy package could perhaps include: (1) a reappraisal of the Alaskan-Mexican crude oil "swap," with the objective of making available to Japan some 500-600,000 barrels per day of Alaskan crude. Should the "swap" arrangement prove infeasible, we could explore the release of some portion of Alaskan crude presently destined for the Gulf ports. The Congress perhaps could support offset efforts to interrupt the Pacific equivalent of the Urengoi-Yamburg gas pipeline project, particularly if we could secure meaningful quids from the Japanese; (2) encourage Japan to undertake an LNG project in Alaska in the interest of promoting a "Western energy security" policy framework. This LNG project would provide the offset amount of 3 million tons of LNG per annum for 20 years; and (3) increased U.S. exports of multi-use steam coal from the present level of 3.5 million tons to a level desired by the Japanese.

This broader strategy concerning Sakhalin could also have several positive effects consistent with other important U.S. policy objectives. These benefits could potentially include: (1) denial of $60-80 billion in Soviet hard currency earnings and $2.7-3 billion in subsidized development financing and sophisticated Western equipment and technology; (2) a dramatic easing of bilateral trade tensions due to newly generated multi-billion U.S. energy exports; (3) upgraded military integration and improved leverage to seek greater concessions concerning defense spending; (4) demonstration to the European allies that the U.S. <u>can</u> act in a comprehensive framework to advance Western energy security; and (5) critical new leverage over the completion of the Urengoi-Yamburg gas pipeline project which depends on the export of some 400 Komatsu pipelayers and annual deliveries of

750,000 tons of wide-diameter steel pipe (about 50 percent of total annual import requirements of pipe for the project).

However, should the Administration judge that broader considerations favor the fall/winter exemption of U.S. licenses for Sakhalin, we would have substantially increased our leverage by delaying this decision and thereby can exact more meaningful concessions from Japan. It should be noted that the "across-the-board" lifting of sanctions on oil and gas related equipment to the USSR would remove any U.S. leverage over Sakhalin and make the recommendations outlined above impracticable.

Based on the aforementioned considerations and the ability to corroborate portions of the information provided, the following options are available at this time for interagency review and comment:

1. Deny SODECO's request for a "special" approval of U.S. export licenses in May and begin to structure a U.S. energy offset package designed to dissuade Japan from proceeding with the production phase of Sakhalin. (This approach leaves open the option of approving the licenses in the third/fourth quarter of 1982 in return for more substantial quids from Japan.)

2. Should it be judged necessary to eventually approve the licenses to prevent abrogation of the General Agreement, we should concentrate our negotiating efforts on receiving various quids from Japan among them being the opening of the Japanese capital market for major untied financings in the U.S., particularly in the energy sector.

3. Approve the U.S. export licenses for Sakhalin in May for more limited political benefits and economic and trade concessions.

Prepared by:
Roger W. Robinson

Since the preparation of the above paper, two documents have been obtained which should be incorporated into your agency's review. The first is a summary of the CIA's findings (Tab E) and the second is an intelligence report (Tab F) which records an incident also of relevance to your assessment.

# SODECO

SAKHALIN OIL DEVELOPMENT
COOPERATION CO., LTD.

NEW KOKUSAI BLDG.
4-1, 3-CHOME, MARUNOUCHI,
CHIYODA-KU, TOKYO 100

TELEPHONE : (213) 1381
TELEGRAMS : SAHAOIL TOKYO
TELEX : J 25244

OUR REF.: SGK-2040

March 30, 1982

Mr. Donald Greg
Director of Intelligence
National Security Council
The White House
Washington, D.C. 20500

Dear Mr. Greg:

I am writing you this letter in reference to the recent meeting you had with Mr. Chikara Higashi concerning the necessity of prompt approval of SODECO's export licenses for the Sakhalin oil project. Included as an attachment to this letter are two documents. The first, the Status Report, is a summary of the project from its beginning in 1975 to present. It describes the General Agreement with the Soviet Union and explains why a Japanese breach at this stage in the project would be so beneficial to the Soviets. The second, Talking Points, presents SODECO's reasons why the prompt granting of licenses is essential.

As you will see in the Status Report, Japan is obligated by the General Agreement to supply materials, equipment and services in the exploration of the Sakhalin continental shelf. After seven years, the exploration period is almost complete. It lacks only some drilling during this summer, before the exploratory phase ends next year. If the export licenses are not granted promptly, Japan will be unable to complete the final drilling by the end of the period. Thus, it will be in breach of the General Agreement.

Such a breach will rpovide the Soviet Union with the opportunity to terminate the Agreement. This will result in great loss to Japan, and great benefits to the Soviet Union. The Soviets will gain sole and exclusive right to the oil and gas that has been discovered during the past seven years. It will be able to sell this oil and gas at full market prices. Finally, the Soviets will be relieved of its obligation under the Agreement to pay Japan over one-half billion dollars.

For its part, a breach will deprive Japan of its guaranteed access to 50% of an estimated 1.3 billion barrels of oil and gas over the next decade and beyond. This guaranteed access is at significant discounts. Further, Japan will forfeit $190 million in credits, some $22 million in other loans would be in jeopardy, and $292 million in compensation would be lost.

It is our belief that application of the U.S. government's sanctions to these export licenses will injure only Japan, and not the Soviet Union. It will, in fact, greatly benefit the Soviet Union. At the price of perhaps a short and momentary delay in the development of this oil and gas source, the Soviet Union will recieve all the benefits on the Agreement and Japan's previous performance and investments. The purpose of the U.S. government's sanction program is not, of course, to confer such immense benefits on the Soviet Union at the expense of an ally.

Time is an important consideration. Due to climatic conditions, the work period is only between June and October. To complete this year's drilling, Japan must adhere strictly to the work schedule. There is not enough time left before the end of the exploratory phase to compensate for delays in this year's program. Thus, Japan must receive the licenses by early May.

I will be coming to the United States personally in the next few weeks. It is my hope that this matter can be resolved at that time. In the meantime, please do not hesitate to contact me personally on this matter for any furhter information you may need.

Yours sincerely,

S. Kobayashi
President

Sakhalin Oil Project
Present Status

1. On January 28, 1975, Japan and the Soviet Union signed a General Agreement for the mutual exploration, development, production and supply to Japan of oil and gas from the Sakhalin Island Continental Shelf.

2. The Japanese party is the Sakhalin Oil Development Cooperation Co., Ltd., (SODECO), a consortium of the Japanese government and private companies. The Japanese government (Japan National Oil Corporation) owns 44% of SODECO stock. To date, 70% of the project's financing has been provided by the Japanese government.

3. Exploration is occurring in two structures — "Chaivo" and "Odoptu". The General Agreement requires Japan to supply equipment, machinery, materials, supplies and services during the exploratory period, which now extends to December 1982 for the Chaivo area and December, 1983 for the Odoptu area.

4. Japan is obligated to finance the exploration by providing the Soviets credits redeemable when successful (CRWS). The credits are repaid when and only if the project results in the joint production of oil and gas. As of early 1982, Japan is obligated to supply $185 million in CRWS. To date, $163 million CRWS have actually been invested.

5. The Soviet Union is obligated to sell to Japan 50% of the annual joint production of oil. The oil price is based

on the posted price of Persian Gulf oil of comparable quality, less prevailing discounts and comparative freight. The price is further reduced by 8.4%. This discount reduction is applied to 50% of produced oil and gas for a period of 10 years as compensation. The Soviet Union is obligated to redeem the CRWS only if the fields are jointly developed and produced with Japan.

6. The maximum compensation for Japan under the General Agreement is $292 million.

7. The Japanese are further guaranteed access to 50% of the annual joint production for a period of 10 years after the CRWS have been redeemed.

8. Total estimated reserves of oil and gas in the Chaivo and Odoptu structures currently amount to about 2.6 billion BBL of oil (1.2 billion) and oil equivalent of gas (1.4 billion). Under the General Agreement, Japan has guaranteed access to at least 1.3 billion BBL.

9. In the event of commercial gas production, Japan is guaranteed a supply at prices and quantities to be determined by separate agreement for the redemption of CRWS and for an additional 10 year period following redemption. It is possible for Japan to receive all of the gas produced from both fields.

10. Japan is further obligated and has provided credits for exploration and local needs. The credit extended thus far amounts to $70 million. $22 million in credits is still outstanding.

11. Under the exploratory phase, 18 wells have been drilled, of which 12 have been successful. All five of the wells drilled in the second half of 1981 were successful. The Chaivo structure contains oil and gas and an estimate of recoverable reserves is expected shortly. The decision to develop this structure will be made this year. The exploration of the Odoptu continues until December, 1983. By this time, the exploration, appraisal and economic evaluation stage of the 1975 General Agreement will be completed.

12. To complete Japan's obligations under the exploratory phase of the General Agreement, it must provide machinery, equipment, supplies, materials and services for the work required in 1982. Due to climatic conditions, the 1982 work period extends only from June to October. Japan's failure to complete the remaining work during the 1982 work period means that it cannot complete its obligations under the exploratory phase before that phase ends in 1983.

13. To conduct operations in 1982, Japan must provide $20 million of goods and services. Approximately $2 million of this amount consists of items requiring export licenses for the U.S. Eighty percent of this amount represents short-term leased equipment, spare parts and consultant services. Failure to obtain export licenses for these items by early May will preclude Japanese operations during the 1982 work period. Because of the large amount of drilling to be done in the short time remaining to the exploratory period, a delay caused by the failure to obtain the licenses promptly will make it impossible for Japan to fulfill its obligations under the exploratory phase of the General Agreement. This will cause a Japanese breach of the General Agreement.

14. The parties are excused from performance of their obligations only by force majeure phrase which contracts state "as only natural phenomena".

15. Japan has secured export licenses from the United States during the entire previous seven year period of the project including exceptions from U.S. embargoes during 1980 and 1981.

16. To date, work under the General Agreement has resulted in $72 million of American equipment and services having been provided under export licenses.

Sakhalin Oil Project
Talking Points

1. Under the General Agreement signed between Japan and the Soviet Union on January 28, 1975, for the exploration and development of oil and gas in the Sakhalin Island Continental Shelf, the parties have mutual obligations for the exploration, development and production in the area.

2. Japan has invested, obligated or loaned about $212 million thus far. A total of $190 million of this is in credits which are repaid only from joint production. The balance is in the form of other loans and credits.

3. In the event of a breach caused by non-performance, Japan stands to lose at least $190 million in the redeemable credits already obligated. Other loans and credits, now outstanding in $22 million, will also be jeopardized.

4. The General Agreement provides to sell 50% of oil and gas produced for a period of 10 years at a discounted price as financial compensation to Japan until such compensation reaches approximately $290 million, payment of which is also dependent upon joint production. In the event of a breach caused by non-performance, Japan will lose this amount.

5. In all, a breach will cost Japan a total of over $500 million.

6. The government of Japan itself has a 70% interest in the project. Thus, the greater portion of the loss will be borne directly by the government. It could be a serious political issue in the Japan's Parliament.

7. The General Agreement also provides Japan guaranteed access to 50% of all production for a period of 10 years after the redeemable credit has been redeemed. Based on present estimates of Sakhalin reserves, this translates into 1.3 billion BBL of oil and gas. Japan's breach thus will result in loss of access to over 1.3 billion barrels of oil and gas.

8. The exploratory and evaluation phases of the project are almost completed. Eighteen wells have already been drilled. The last five additional wells will be drilled in 1982. A decision to develop and produce the Chaivo structure with an estimate reserve of 1.6 billion BBL will be made this year. A decision to develop the Odoptu structure, with reserves of about 1.0 billion BBL, will be made shortly. Thus, the period of risk and uncertainty is essentially over. This risk has been borne by the Japanese over the previous seven years of the project.

9. The failure of Japan to fulfill its obligation under the last stages of the exploratory phase will cause a breach of the Agreement that frees the Soviet Union from its obligations to repay credits, provide risk compensation, and supply oil and gas to Japan. In effect, this means that Japan will have borne all the financial risk at no cost to the Soviet Union. The Soviet Union will also have the benefit of Japanese and Western machinery, equipment, technology and expertise in establishing these oil reserves free of any obligation under the General Agreement to Japan. Forcing the Japanese to withdraw confers great benefits to the Soviets, while penalizing only the Japanese.

10. The granting of U.S. export licenses for leased equipment, spare parts and consultant services is critical to prevent offering the Soviet Union a power in right to declare a Japanese breach. The exploratory phase ends in December, 1983. Japan must complete its final drilling under the exploratory phase during the short work-period from June to October of 1982. Failure to obtain export licenses by early May, 1982 means Japan cannot complete the drilling under the exploratory phase because of the short time remaining before this phase ends.

11. The General Agreement does not contain any provisions excusing Japanese non-performance due to failure to obtain U.S. export licenses for necessary equipment and services.

12. The value of the equipment and services requiring U.S. export licenses is negligible compared to the size of the investment already made by Japan and the great benefits available to Japan under the General Agreement.

13. In the event of a Japanese breach, development and production by the Soviet Union will be delayed somewhat. However, the critical risk stage of the exploration is essentially completed. The Soviet Union has consistently maintained that it can complete the remaining exploration and move to development and production by itself. At the least, it could obtain the aid of third countries. The project is so advanced that refusal to grant export licenses will not deprive the Soviets of the benefits from the discovery and development of Sakhalin oil fields.

14. Rather than penalize the Soviets, a Japanese breach greatly benefits the Soviet Union:

A. The Soviet Union is freed from the obligation to redeem the Japanese risk credits of $190 million.

B. The Soviet Union is freed from the obligation to sell oil and gas from the Sakhalin fields at significant discounted price below market. Thus, the Soviet Union is freed from the obligation to provide compensation for Japanese risk investment of over $290 million.

C. The Soviet Union is freed from the obligation to provide Japan guaranteed access to 50% of production (approximately 1.3 billion BBL of oil and gas).

D. The Soviet Union gains exclusive right to the entire 2.6 billion BBL of oil and gas for its own use, or for sale at full market prices.

15. A cancellation of the General Agreement due to Japanese non-performance will enable the Soviet Union to negotiate a replacement agreement with third countries at vastly more favorable terms than presently obtains in the contract with Japan. Renegotiation with the Japanese will also result in a substituted contract on more favorable terms than the existing Agreement.

16. Thus, at worst, Japanese failure to obtain U.S. export licenses will result in the Soviet Union gaining sole and exculsive access to 2.6 billion BBL of oil and gas to use or sell at world prices.

In return, development and production will be subject to a modest delay, which may well be only temporary.

17. The value of the items needing U.S. export licenses for the 1982 drilling program is only $2 million, 80% of which is represented by short-term leases, spare parts and consulting services. No high technology is being exported or transferred. No COCOM items are involved.

18. Japan has received export licenses for all previous items obtained from the U.S. and used in the project. Exceptions have been granted under previous economic sanctions imposed by the U.S. against the Soviet Union. The value of the export licenses required in 1982 is small compared to the value of licenses already granted. Almost all key items of equipment supplied thus far in the project have come from the U.S.

19. Although the value of the U.S. items needed in 1982 is insignificant compared to the amount of money already invested by Japan — and the benefits Japan gains under the General Agreement — $500 million and over 1.3 billion barrels of oil and gas — the timely (early May) granting of export licenses is essential if Japan is to protect its interests under the project.

20. This project is extremely important to Japan. In addition to the large financial investment Japan stands to lose, termination by the Soviet Union deprives Japan of guaranteed access to nearby oil and gas supplies of significant quantities.

21. Japanese access to Sakhalin will ease its dependence on oil supplied from geographic areas of international instability.

SODECO Major Shareholders

| | | |
|---|---|---|
| 44% | - | Japan National Oil Corporation (100% government owned) |
| 10.2% | - | Japan Petroleum Exploration Corporation (50% government owned) |
| 10.2% | - | Overseas Petroleum Development Corporation (private) |
| 7.5% | - | C. Itoh (project coordinator and major trading company shareholder) |
| 5.6% | - | Gulf Oil Corporation |
| 2.2% | - | Marubeni |
| 1.4% | - | Nissho Iwai |
| 18.9% | - | Miscellaneous (several private companies) |
| 100% | | |

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NSAE-00 COME-00 SSO-02 HA-06 DOE-10 TRSE-00 STR-14
INRE-00 ICAE-00 DOEE-00 /072 W
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TO SECSTATE WASHDC IMMEDIATE 8447
INFO AMEMBASSY MOSCOW IMMEDIATE

C O N F I D E N T I A L TOKYO 07857

E.O. 12065: GDS 4/27/88 (ANGEVINE, CHARLES) OR-E
TAGS: EENT, JA
SUBJECT: SAKHALIN OIL DEVELOPMENT PROJECT

REF: STATE 111149

1. CONFIDENTIAL - ENTIRE TEXT.

2. ADDITIONAL INFORMATION HAS BEEN PROVIDED TO EMBOFF BY MOFA SOVIET AFFAIRS OFFICER RESPONSIBLE FOR THE SAKHALIN PETROLEUM DEVELOPMENT PROJECT. THIS INFORMATION CONCERNS THE URGENT NEED FOR A DECISION BY MAY 1, (OR MAY 15 AT THE LATEST) ON THE EXPORT LICENSE FOR U.S. SUPPLIED DRILLING EQUIPMENT.

3. THE DRILLING LOCATION IS OFFSHORE NORTHWEST SAKHALIN, AN AREA VERY REMOTE FROM BOTH MAJOR JAPANESE AND RUSSIAN PORTS. DUE TO THICK ICE PACKS IN THE AREA THE DRILLING SEASON IS LIMITED TO THE PERIOD FROM JUNE TO MID-OCTOBER. DURING THIS PERIOD FIVE WELLS MUST BE DRILLED BY TWO RIGS, THE JAPANESE "DAINIHAKURYU" AND THE RUSSIAN "OXA". THE DAINIHAKURYU IS CURRENTLY UNDER CONTRACT FOR OIL DRILLING WORK OFF AKITA PREFECTURE OFF NORTHWEST JAPAN UNTIL JUNE 18. THE WHEREABOUTS OF "OXA" ARE UNKNOWN.

3. THE DAINIHAKURYU IS SCHEDULED TO LEAVE FOR SAKHALIN ON JUNE 19 AND PLANS TO ARRIVE ON JUNE 22 SO THAT IT CAN BEGIN DRILLING JUNE 25. SOME OF THE EQUIPMENT REQUIRING LICENSES, INCLUDING CRITICAL ITEMS LIKE GENERATORS, PUMPS AND KELLEYS, ARE VERY LARGE AND MUST BE TRANSPORTED BY SHIP. THE MOFA OFFICIAL GAVE THE FOLLOWING ESTIMATED TIMETABLE BASED ON A MAY 1 APPROVAL.

MAY 1: LICENSE
MAY 4: ARRANGE TRANSPORTATION
JUNE 5: EQUIPMENT ARRIVES IN YOKOHAMA
JUNE 15: EQUIPMENT ARRIVES BY SHIP AT BASE IN SAKHALIN
JUNE 19: INSTALLATION OF EQUIPMENT COMPLETED
JUNE 22: RIGS ARRIVE AT DRILLING SITE
JUNE 25: DRILLING BEGINS

4. IT IS OUR VIEW THAT DUE TO THE VAST DISTANCES INVOLVED, AND THE NECESSITY OF SHIPPING THE HEAVY EQUIPMENT AS OCEAN FREIGHT, THAT THE MAY 1 DEADLINE IS VERY REAL. FAILURE TO REACH A DECISION BY THAT DATE (OR AT THE VERY LATEST BY MAY 15) WOULD HAVE THE SAME EFFECT AS A DECISION TO DENY THE LICENSE. THE SENSE OF URGENCY WHICH THE COMPANY HAS EXPRESSED IS MOST CERTAINLY SHARED BY THE GOJ.

CONFIDENTIAL

# Japan

I. LNG Imported in 1981 (million metric tons)

| | |
|---|---|
| Alaska | 0.96 |
| Brunei | 5.14 |
| Abu Dhabi | 2.06 |
| Indonesia | 8.8 |
| Total | 16.96 |

II. Contracted LNG (million metric tons)

| | | |
|---|---|---|
| Sarawak | 6.0 | beg. 1983 |
| Indonesia | 6.5 | beg. 1983 |
| Australia | 6.0 | beg. 1987 |
| Total | 18.5 | |

III. LNG Projects in Planning Stage

| | | |
|---|---|---|
| Canada | 2.9 | |
| Sakhalin | 3.0 | |
| Quatar | 6.0 | |
| Thailand | 2.5 | |
| Total | 14.4 | (all scheduled to materialize by 1990) |

Grand total of LNG supplies by 1990 -- 49.86 million metric tons